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HART SCHAFFNER & MARX



Twenty-seventh Annual Report
November 30, 1937

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HART SCHAFFNER & MARX

CHICAGO NEW YORK

New York, January 24, 1938

To the Stockholders of
Hart Schaffner & Marx

On behalf of your Board of Directors there is submitted the financial statement of your Company for the fiscal year ending November 30, 1937, together with the report of your auditors, Messrs. Price, Waterhouse & Company

In common with manufacturers in most lines, more than the usual inventory depreciation was taken and the entire loss arising therefrom has been applied against the operating results for the year. There was also deducted from the earnings for the year the sum of $90,000, representing a final settlement of liability on a factory building under a lease entered into in 1929. This building the company had not used for a number of years. Taxes were $110,000 higher than a year ago and increases in the cost of materials and labor materially affected profits for the fall season

The reserves provided in prior years for liquidating losses and other possible losses were found to be in excess of the present requirements. This excess was restored to earned surplus and, together with an amount arising from the assignment by a creditor to the parent company of a claim against a wholly owned subsidiary, represents a total credit to earned surplus of $179,511.35

During the fiscal year 1937 a payment of $75,951.50 was made to members of the Amalgamated Clothing Workers of America employed in the company's factories, because of a reduction of wages in previous years agreed to by the union, and this payment has been charged to earned surplus. The agreement provided that a portion of the aggregate earnings of the company for the fiscal years 1934 to 1938, inclusive, was to be applied toward the repayment of these deductions. At the end of the fiscal year 1938 the total amount that may be due under the agreement will be computed, and if there should be any balance payable, there will be a final distribution at that time

The financial statement shows a bank liability of $2,150,000, arising from increased inventory and book accounts. At this date the bank loans amount to $1,250,000

Advance sales for Spring 1938 show a decrease. We believe that inventory problems will soon be solved and that this will bring about a larger degree of stability in commodity prices and with it a resumption of normal business.

MARK W. CRESAP
President

HART SCHAFF

A NEW YORK

BALANCE SHEET—N

Assets

Current Assets		
Cash	$ 456,893.09	
Notes and accounts receivable (less reserves), including amounts due from subsidiary and affiliated companies covered by net quick assets	4,505,033.89	
Inventories of materials and finished and partly finished merchandise on hand and in transit, at cost or market whichever is lower for current season's merchandise, and estimated realizable values for past seasons' merchandise	3,154,911.66	
Sundry accounts—including $20,608.15 due by employees	51,850.32	$ 8,168,688.96
Investments In and Non-Current Advances to Subsidiary and Affiliated Companies and Others (Less Reserves)		
of which $1,507,548.51 is represented by net quick assets of such companies		2,054,402.53
Company's Capital Stock held in Treasury		
4,930 shares at par	$ 98,600.00	
2,035 shares at cost	76,264.40	174,864.40
Shop Equipment and Fixtures, and Office Furniture		
At cost	$1,192,711.12	
Less—Depreciation reserve	950,379.86	242,331.26
Deferred Charges		
Prepaid factory rentals, unamortized portion of remodeling and moving expenses, prepaid insurance, supplies, etc.		218,048.26
Goodwill, Trade Names and Trade Marks		
At record value		1.00
		$10,858,336.41

NER & MARX
CORPORATION

NOVEMBER 30, 1937

Liabilities

Current Liabilities

Notes payable to banks	$2,150,000.00	
Accounts payable	68,851.41	
Liability for goods in transit	80,040.18	
Accrued salaries and wages	63,767.81	
Liability arising from cancellation of factory lease	58,500.00	
Accrued Federal, State and Local taxes (less cash of $52,255.84 deposited in escrow to cover payment of real estate taxes)	158,959.65	$ 2,580,119.05

Capital Stock

Common—Authorized and issued 150,000 shares of $20.00 each		3,000,000.00

Capital Surplus

Balance November 30, 1936	$1,786,212.61	
Add—Credit arising in connection with disposition of Treasury Stock at value in excess of carrying value	17,500.00	1,803,712.61

Earned Surplus

Per accompanying statement	3,474,504.75
	$10,858,336.41

HART SCHAFFNER & MARX

A NEW YORK CORPORATION

STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS

FOR FISCAL YEAR ENDING NOVEMBER 30, 1937

Profit of parent company for the year after deducting manufacturing, marketing and administrative expenses, provisions for depreciation of equipment, intercompany profit in inventories of subsidiary companies and additional compensation, but before including dividends received on investments in subsidiary companies and before deducting special charge and provision for Federal income taxes and adjustment of reserves against investments			$ 158,999.97
Add:			
Dividends received on investments in capital stocks of subsidiary companies less adjustment of $14,127.51 in reserves against investments in capital stocks of certain subsidiary and affiliated companies.			76,912.49
(*Note:* The parent company's equity in the net operating profits of all of its subsidiary and affiliated companies for the year was $102,201.27)			$ 235,912.46
Deduct:			
Provision for liability arising from cancellation in 1937 of factory lease		$ 90,000.00	
Provision for Federal income taxes—			
Normal tax	$3,500.00		
Surtax on undistributed profits	5,000.00	8,500.00	98,500.00
Profit for the year carried to earned surplus			$ 137,412.46
Earned Surplus at November 30, 1936			3,305,049.94
Together			$3,442,462.40
Add:			
Net reduction of reserves, provided in prior years, to estimated requirements at November 30, 1937 and credit of $32,041.44 arising from assignment by a creditor to parent company of claim against a wholly owned subsidiary		$179,511.35	
Less—Amount paid during 1937 to employees in consideration of prior years' wage reduction, as explained in accompanying letter of President to stockholders		75,951.50	103,559.85
			$3,546,022.25
Deduct—Dividends paid			71,517.50
Earned Surplus at November 30, 1937			$3,474,504.75

Report of Accountants

To the Stockholders of
Hart Schaffner & Marx

We have made an examination of the Balance Sheet of Hart Schaffner & Marx as at November 30, 1937 and of the Statement of Profit and Loss and Earned Surplus for the fiscal year ending on that date. In connection therewith, we examined or tested accounting records of the Company and other supporting evidence and obtained information and explanations from officers and employees of the Company; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions

We also made examinations of the financial statements of a number of the principal subsidiaries as at July 31, 1937. In addition we have been furnished with financial statements of all of the subsidiary companies as at November 30, 1937, certified by the officers thereof, supported by particulars of inventories, certificates covering bank balances, and detailed lists of receivables, and these statements and other supporting data were subjected to our review or verification for the purpose of substantiating the correctness of the information furnished to us

The accompanying Balance Sheet sets forth the assets and liabilities of the parent company. The investments in and non-current advances to subsidiary companies are stated as such on the Balance Sheet, after deducting therefrom reserves for subsidiary companies' losses of prior years, adjusted in respect of changes in the net worth of these companies for the year ending November 30, 1937. The portion of the advances to subsidiary companies, which is represented by net quick assets, is included in the current assets

In our opinion, based upon such examination and review and upon explanations furnished to us, the accompanying Balance Sheet and related Statement of Profit and Loss and Earned Surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the Company during the year under review, its position at November 30, 1937, and the results of its operations for the year.

PRICE, WATERHOUSE & CO.

CHICAGO,
January 14, 1938